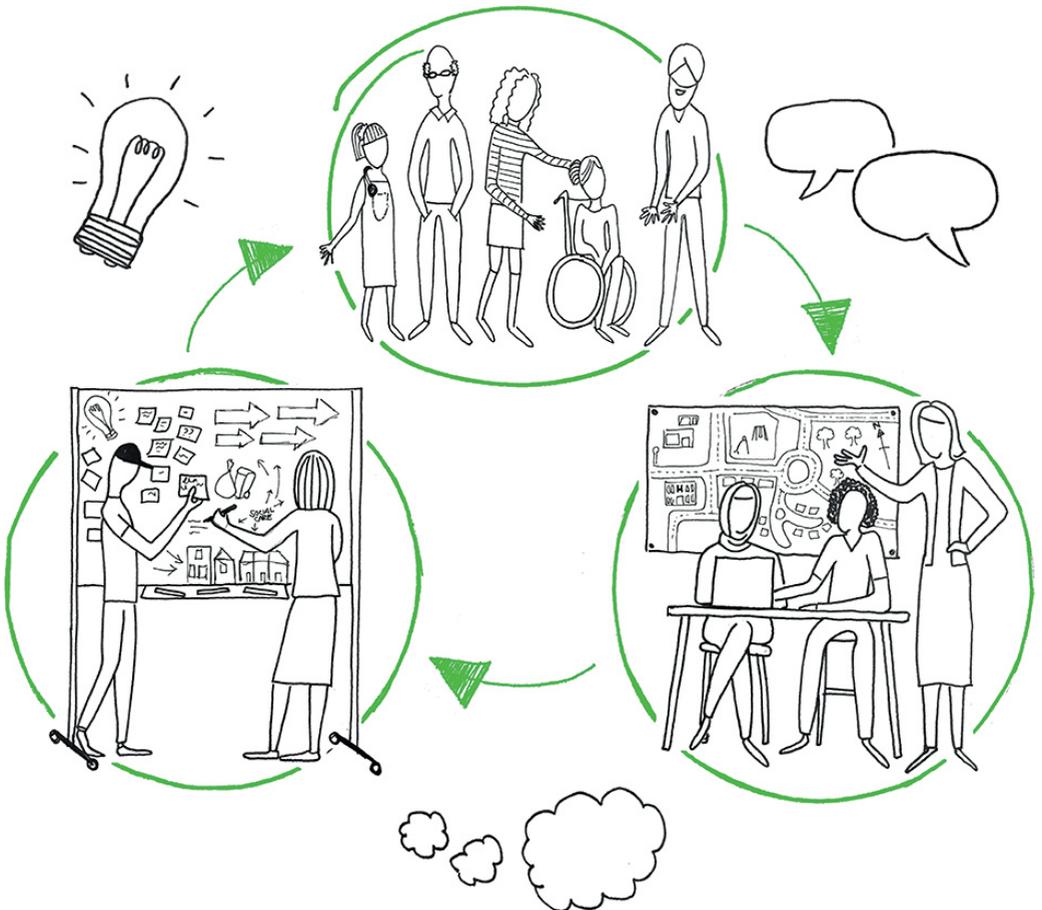


FROM TRANSACTIONS TO CHANGEMAKING

RETHINKING PARTNERSHIPS BETWEEN
THE PUBLIC AND PRIVATE SECTORS

Trinley Walker and Sarah Lawson



New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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NLGN

FOREWORD

Westminster has a habit of getting so wrapped up in its own noisy debates that it can often lose sight of a reality happening outside the borders of its rarefied world. So it is with the current ear-splitting dispute about the future of partnerships between the public and private sectors. The parties may have pigeon-holed themselves into competing cheerleaders for in-house or outsourced solutions but the reality is that the public sector across the country is far more pragmatic and imaginative than the politicians.

Councils, hospitals, schools and a host of other public bodies are not about to ditch their vital partnerships *en masse*. But neither are they blindly accepting of the assumption that private sector involvement is always an inevitable advance on what the public sector can do for itself. Speak to public servants delivering services every day and they will tell you that we don't necessarily need *more* or *fewer* partnerships, but we certainly need *better* partnerships.

This timely report draws on that more sophisticated perspective to develop a new framework that seeks to address the weaknesses of partnerships between the public and private sectors, while enhancing their strengths. In so doing, it has also constructed a vision of partnership that is better suited to an era defined by rising demand and growing complexity. Issues which rarely feature in the discussion about partnership convulsing the Westminster village.

I hope this report can do something to introduce some common sense and some imagination back into a political row that has become more about confirming existing biases inside our main parties rather than addressing the big challenges facing our vital public services.

ADAM LENT

Director, NLGN

EXECUTIVE SUMMARY

This report provides a new voice to the debate on the role of the private sector in the delivery of public services. While the current debate remains unhelpfully polarised along party lines, we argue that partnerships between the public and private sectors must fundamentally change – from an approach that is primarily transactional in nature, to one that is changemaking.¹

THE CURRENT DEBATE: A PREOCCUPATION WITH THE MEANS OF DELIVERY OVER HIGH QUALITY OUTCOMES

The role of the private sector in public service delivery has been overshadowed by recent high-profile failings, including the collapse of Carillion. But while this could provide the impetus for a radical rethink, the national political debate is stuck in the past. The Conservative Government seems to prefer a ‘business as usual’ approach, with an increase in overall government spend on outsourcing,² while the Labour Party advocates taking everything back ‘in-house’. Both approaches focus on the means of delivery rather than the ends – and neither really addresses the fundamental challenge facing public services: rising demand.

THE NEED FOR CHANGE

AN INCREASINGLY COMPLEX WORLD

Sitting behind rising demand is an increasingly complex world in which partnerships between the public and private sectors must adapt. Modern phenomena such as an ageing population, new technology, and changing citizen expectations contribute to demand pressures and add further

¹ ‘Changemaking’ is a term adopted in NLGN’s (2017) A changemaking vision for local government. It is used to identify the culture shift required to reinvent public services and raise social impact, underpinned by three core values: creativity, collaboration and self-determination.

² Arvato (2018). UK Quarterly Outsourcing Index. Available at: <https://www.arvato.com/uk/insights/outsourcing-index.html>

complexity to the mix. Meanwhile, austerity has driven down real terms resources for public services to keep pace with demand.

A DECLINE IN APPETITE FOR PARTNERSHIPS BETWEEN THE PUBLIC AND PRIVATE SECTORS

New analysis for this report reveals that the preference towards outsourcing may be on the wane. NLGN's Leadership Index asked leaders, chief executives and mayors about their plans to outsource over the next two years. While nearly half indicated no change (46 per cent), a significant minority (39 per cent) indicated that they would outsource less, with only 15 per cent saying they would outsource more.³

CHANGEMAKING PARTNERSHIPS IN PRACTICE: FIVE GUIDING PRINCIPLES

Our research highlighted five key barriers to progressive partnership working. In response, we have identified five corresponding guiding principles for a renewed 'changemaking' approach:

TERRITORIAL → COLLABORATIVE

Siloed working within and between sectors can often lead to a preoccupation with contract management and offloading risk rather than forging a genuine partnership.

A collaborative partnership is underpinned by a clear understanding of where responsibilities and risks lie, drawing on the distinct strengths and capacities of each partner. This might involve investment in client-side capacity or public sector bodies banding together to co-commission services.

³ See appendix. NLGN Leadership Index is a survey of leaders, chief executives, and council mayors of local authorities across the UK. It asks their level of confidence in key service areas and wider indicators of community wellbeing. The NLGN Leadership Index survey (August 2018) was sent to 767 leaders, chief executives and council mayors. It was open between 7 June and 2 July 2018.

PROCESS-DRIVEN → CREATIVE

A culture that encourages prescriptive and unimaginative ways of working limits opportunities to trial new approaches and models of delivery.

A creative partnership necessitates a shift in mindset towards a problem-solving approach. Practical routes to creativity include empowering the procurement profession in the public sector and encouraging a diversity of approaches to partnership working.

RIGID → ADAPTABLE

Contracts that are too rigid can tie partners to arrangements that do not work or are no longer fit for purpose when circumstances change.

Adaptability flows from an understanding that different phases of projects will have distinct requirements and that these may change, particularly within a complex service delivery landscape. Opportunities to adapt may be facilitated by dividing complex projects into discrete phases or introducing break clauses into contracts.

CLOSED-DOOR → ACCOUNTABLE

A closed-door culture excludes the public from scrutinising decisions and can show a disregard for the public interest.

High levels of transparency and accountability improve the quality of outcomes and restore public trust. Practical routes to greater accountability include meaningful public engagement in design, delivery and evaluation; and greater data disclosure to enable the monitoring and evaluation of spend.

LINEAR → PLACE-BASED

Poor partnerships can be narrow and centralised in their approach. There can be a lack of integration with the wider assets and resources in places.

Place-based partnerships generate long-term benefit in the communities in which they operate. Practical routes to delivery include a renewed approach to social value, moving towards genuine social impact; the active involvement of elected members; and commissioners encouraging a diverse mix of providers – where possible including local small and medium-sized enterprises (SMEs).

POLICY RECOMMENDATIONS

We identify a series of policy recommendations, which call for cross-sectoral action to support these five fundamental shifts towards changemaking partnerships.

PUBLIC SECTOR

- **REPLACE SOCIAL VALUE WITH A STRONGER MEASURE OF SOCIAL IMPACT:** Be prepared to drive long-term change rather than focus on avoiding short-term costs. Social impact objectives must be measurable, made public, based on consultation where feasible and built into the contract management of partnerships.
- **MAINSTREAM PROCUREMENT INTO CORE STRATEGIES:** Procurement should align closely to wider council and commissioning goals.
- **INVOLVE THE PUBLIC IN MEANINGFUL WAYS:** Community steering groups should operate across the design, delivery and evaluation of many projects and services.

PRIVATE SECTOR

- **APPROACH PARTNERSHIPS WITH THE PUBLIC SECTOR AS A SHARED ENDEAVOUR, NOT A SINGLE PRODUCT OR SERVICE:** This includes taking a problem-solving approach to partnership working that draws on the skills, assets and capacity of each partner. This collaborative approach could be supported through cross-sector secondments within larger contracts.
- **ACCEPT ACCOUNTABILITY TO THE PUBLIC:** An accountability code of conduct should govern practice and include full data disclosure and open booking accounting on large public sector contracts of £1 million and over.

■ **INTRODUCE A SOCIAL RESPONSIBILITY ACCREDITATION SYSTEM:**

All firms bidding for public sector contracts of £200,000 or more should commit to a social responsibility accreditation scheme. For example, this could be similar to B Corporation status,⁴ a business certification that considers environmental and social outcomes beyond the immediate impact of their operations. The accreditation should not be led by the private sector – the public sector and government should consult and determine how the scheme would be governed and managed.

GOVERNMENT

■ **IMMEDIATELY UNDERTAKE A SUBSTANTIVE REVIEW INTO THE STEPS NEEDED TO PROVIDE GREATER TRANSPARENCY ON PRIVATELY OUTSOURCED CONTRACTS:**

The review should establish a framework for the creation of a world-class data infrastructure framework that would boost transparency across procurement spend with the private sector and ensure that public money is rigorously accounted for.

■ **INTRODUCE A COMPULSORY TRAINING SCHEME FOR PROCUREMENT PROFESSIONALS:**

This must include training on social impact and should be supported by interdisciplinary working opportunities and sharing of best practice.

■ **RECOGNISE THAT PARTNERSHIPS BETWEEN THE PUBLIC AND PRIVATE SECTORS ARE NOT A SOLUTION TO AUSTERITY:**

Government must invest in the capacity of the public sector to manage increasing demand. The public sector must have the skills and resources to manage a diverse ecosystem of provision.

Public service provision needs to be capable of responding to reducing resources, rising demand and shifting citizen expectations. A new approach to partnership between the public and the private sector would see a shift from transactional modes of operating to a changemaking approach – one which is collaborative, creative, adaptable, accountable and rooted in place.

⁴ Delves, A. (2018). What are B Corps, and how do you become one? Available at: <https://www.simplybusiness.co.uk/knowledge/articles/2018/02/what-is-a-b-corp-all-you-need-to-know-about-b-corp-certification/> [Accessed July 2018]

INTRODUCTION

The UK relies on the private sector to provide many services to the public, and the presence of the private sector is interwoven into the delivery landscape. The government spends more on procuring goods and services from private providers than it does on staff costs.⁵ Recent high-profile failures have shone the spotlight of public attention into this pervasiveness. The collapse of Carillion, the second largest construction company in the UK, demonstrated the potentially precarious operating models of some companies providing public services.

Yet the national political debate is polarised. The Conservative Government, on the one hand, seems to prefer a ‘business as usual’ approach to the role of the private sector, with rising government spend on outsourcing.⁶ On the other hand, the Labour Party advocates taking everything back ‘in-house’: leader, Jeremy Corbyn, has stated, “...what we’re saying is, the preferred option on direct services should be the public option...”⁷ Both approaches focus on the means of delivery rather than the ends – and neither really addresses the fundamental challenge facing public services: rising demand.

When partnerships between the public and private sectors were first introduced in the late 1970s, the UK had recently joined the European Economic Community and the very first personal computer had just hit the market. The rationale for the introduction of market forces into the provision of services was to improve efficiency and cut costs in a system of direct state delivery. The trend towards an increasing role for the private sector continued under successive governments through new models, policy drivers and initiatives.

⁵ HM Treasury (2018). Whole of Government Accounts: Year ended 31 March 2017. See also: House of Commons Public Administration and Constitutional Affairs Committee (2018). After Carillion: Public sector outsourcing and contracting. Seventh Report of Session 2017–19.

⁶ Arvato (2018). UK Quarterly Outsourcing Index. Available at: <https://www.arvato.com/uk/insights/outsourcing-index.html> [Accessed September 2018]

⁷ Stewart, H. & Asthana, A. (2018). Corbyn on Carillion: we’ll end outsourcing ‘racket’ in rule change. Available at: <https://www.theguardian.com/politics/2018/jan/18/corbyn-on-carillion-well-end-outsourcing-racket-in-rule-change> [Accessed September 2018]

Forty years on, the world has changed significantly – modern phenomena such as an ageing society, new technological opportunities, and citizen expectations of increasing influence have emerged. These factors have significant implications for the demand pressures on public services, and the responses services are capable of. In the context of austerity, which has driven down real terms resources available for public services to keep pace with demand, there is an increasing risk that the private sector is resorted to as a cheaper option, and that risks on both sides of partnerships grow. The symptoms of this approach are widespread, from the high costs of bailouts⁸ to significant renegotiation of contracts.⁹

This report calls for a fundamental rethink about the relationship between the public and the private sector in a changing world. It sets out the shift required to be fit for purpose – from an approach we identify as primarily transactional in nature, to one which is genuinely focused on changemaking,¹⁰ with real and deep impact for the public. We identify how at their most transactional, partnerships can be territorial, process-driven, rigid, closed-door and linear. To become capable of changemaking in practice, we need a rethink of partnerships between the public and the private sectors to become more collaborative, creative, adaptable, accountable and place-based. Drawing on NLGN's Changemaking Vision,¹¹ this approach calls for a radical change in culture and relationships between the public and private sector. We first reflect on the challenges currently facing partnerships before setting out this new vision for partnership working between the public and private sector.

DEFINING PARTNERSHIPS BETWEEN THE PUBLIC AND PRIVATE SECTORS

Partnerships between the public and private sectors can cover a range of working arrangements. A World Bank definition of public-private partnerships provides a useful overarching conceptual frame:

⁸ European Services Strategy Unit (2017). European Services Strategy Unit Research Report No. 9: PFI/PPP Buyouts, Bailouts, Terminations and Major Problem Contracts in UK.

⁹ House of Commons Public Administration and Constitutional Affairs Committee (2018). After Carillion: Public sector outsourcing and contracting. Seventh Report of Session 2017-19.

¹⁰ NLGN (2017). A changemaking vision for local government.

¹¹ *ibid.*

“A long-term contract between a private party and a government agency, for providing a public service asset or service, in which the private party bears significant risk and management responsibility.”¹²

Within this broad understanding, partnerships between the public and private sectors will vary on account of the specific division of ownership and risk bearing between the actors engaged.¹³ Yet the term ‘public private partnership’ in the UK context is often associated with models of collaboration between the public and private sectors that involve private finance. Therefore, for the purposes of the analysis set out in the report, the term ‘partnership’ or ‘partnerships between the public and private sectors’ will be used.

The research underpinning this report has focussed primarily on services, though not exclusively. Within partnerships formed for the delivery of services, there may also be goods and or works that form an element of the overall arrangement. Indeed, when discussing outsourcing, it is widely acknowledged that it can occur across works and services – both of which will contain distinct operational and management characteristics. There will also be variations in terms of the role that the private sector plays, on account of the size of the investment and contract. There are routine works or services that may be purchased with a small private sector provider, but also much larger bespoke contracts for complex services agreed with large firms. Some of the principal methods of collaboration between the public and private sectors are defined below.

OUTSOURCING

When a public service is outsourced it is passed to a supplier and overseen by a contractor. Outsourcing describes public services

¹² World Bank Institute (2012). Public-Private Partnerships – Reference Guide Version 1.0 International Bank for Reconstruction and Development/International Development Association or the World Bank, Washington D.C, USA. Available at: <https://openknowledge.worldbank.org/handle/10986/16055> [Accessed August 2018]

¹³ Roehrich, J., Lewis, M.A., George, G. (2014). Are public-private partnerships a healthy option? A systematic literature review. *Social Science & Medicine*. Vol. 113, pp. 110-119.

undertaken by a private company or charity that remain a continuing responsibility of a local authority or other relevant commissioning body.¹⁴

PRIVATE FINANCE INITIATIVE (PFI)

A form of financing for public infrastructure projects that allows groups of private investors to manage the design, build, finance and operation of public infrastructure. Most PFI schemes establish a Special Purpose Vehicle (SPV) to manage the project and oversee the capital investment.¹⁵

JOINT VENTURES

Joint ventures with the private sector allow public sector bodies to enter into a contract in which both parties have an equitable stake. For example, local authority-created joint ventures for housing are a form of partnership with shared risk and reward and involve additional private finance. Joint ventures can also include contractual agreements for shared services and business plans for trading and sub-contracting with other partners.¹⁶

LOCAL AUTHORITY TRADING COMPANIES

Local authority trading companies are bodies that are entitled to operate as commercial companies but remain wholly owned and controlled by the 'parent council'. This model provides greater flexibility whilst still retaining meaningful oversight, provided by a board most often appointed by the relevant council.¹⁷

¹⁴ The Smith Institute (2018). Out of Contract: A toolkit for local authority contracting.

¹⁵ House of Commons Treasury Committee (2011). Private Finance Initiative: Seventeenth Report of Session 2010-12.

¹⁶ The Smith Institute (2017). Delivering the renaissance in council-built homes: the rise of local housing companies.

¹⁷ Department for Digital, Culture, Media and Sport (2017). Guidance: Alternative delivery models explained. Available at: <https://www.gov.uk/government/publications/libraries-alternative-delivery-models-toolkit/alternative-delivery-models-explained>

THE CURRENT PICTURE: FIVE CORE CHALLENGES

The private sector evidently plays a key role in the provision of public services. Its strengths have contributed to high quality provision across a range of areas. Private providers may at times provide technical and innovative expertise or capital investment that would otherwise not be available for projects. These providers may also be able to inject a degree of commercial rigour to projects and reduce previous overspend. But recent events have highlighted significant weaknesses in some partnerships – in the most severe cases, this has led to serious disruption to service delivery.

Our research considered the core components of ineffective partnerships and several themes emerged. We have distilled these into five core challenges, which at their most damaging, can beset the progress and impact of partnerships.

TERRITORIAL: SILOED WORKING WITHIN AND BETWEEN SECTORS

“The public sector is procuring a partner not just an output.”

Paul Bird, Consultant

The word partnership had been “overused and abused”.¹⁸ The inward focus of many partners can lead to a preoccupation with contract management and offloading risk, rather than forging a genuine partnership towards a common purpose. This prevents partners from gaining an understanding of the assets and expertise they each hold; allocating risk responsibly; and working to collectively identify opportunities or resolve issues.

¹⁸ As stated by one interviewee.

An example of territorialism between public and private sector partners is the tendency for some private providers to focus on the particulars of contracts rather than taking a collaborative problem-solving approach towards shared outcomes. In the worst cases, this focus on contract management can lead to providers taking advantage of the public sector, including occasions where councils have purchased unnecessary or over-priced products or services. Meanwhile, criticisms have been directed at commissioning bodies for ignoring Treasury Green Book guidance – which stipulates how to appraise and evaluate policies, projects and programmes – and for taking an aggressive approach to transferring risk to the private sector.¹⁹ For example, the National Audit Office (NAO) reported such risk transfer in the Home Office’s handling of a contract with IT contractor, Raytheon, for the E-borders programme.²⁰ Within the public sector, territorialism can take the form of limited sharing of best practice or missed opportunities for public sector bodies to work together and create economies of scale.

PROCESS-DRIVEN: UNIMAGINATIVE AND BUREAUCRATIC APPROACHES

“The procurement profession is seen as technical rather than strategic and not as significant as policy.”

John Tizard, Independent Strategic Advisor

A culture that encourages prescriptive ways of working discourages creativity and limits opportunities to trial new approaches and models of delivery. By making processes an end in themselves, there is little incentive to innovate, and decisions can be made on the grounds of cost-effectiveness in the short-term over long-term value. For example, a process-driven culture within procurement teams can be a significant barrier to innovative practice. It can lead to a focus on minimising risk and rigidly following processes involved in awarding contracts rather than seeing public sector spend as a powerful route to long-term positive impact.

¹⁹ House of Commons Public Administration and Constitutional Affairs Committee (2018). After Carillion: Public sector outsourcing and contracting. Seventh Report of Session 2017-19.

²⁰ National Audit Office (2015). E-borders and successor programmes. See also: House of Commons Public Administration and Constitutional Affairs Committee (2018). After Carillion: Public sector outsourcing and contracting. Seventh Report of Session 2017-19.

There is also a tendency to use procedures that are too similar to one another for diverse forms of public services and goods, and there can be inadequate deliberation over whether some services should be outsourced in the first place. For example, there may be service areas that necessitate more detailed deliberation before outsourcing, including complex services for vulnerable people. A prescriptive, one-size-fits-all approach neglects the variation across forms of services such as political sensitivities, demand uncertainty and existing assets that need to be in place for delivery to be successful.

This process-driven feature is closely tied to the characteristics of territorialism, through risk-averse procedures and a failure to invite external challenge, and linearity, through neglecting longer-term externalities and outcomes.

RIGID: CONTRACTS THAT ARE TOO RESTRICTIVE

“A procurement function should test the market and tailor options accordingly....as well as considering whether there is merit in separating project and service functions between suppliers”.

Nicola Beach, Chief Executive, Suffolk County Council

Contracts that are too rigid and binding over the long-term can prevent opportunities to adapt or change course. For example, Private Finance Initiative (PFI) deals are an example of a form of partnership that can be unnecessarily costly and prevent the creation of value.²¹ These deals were introduced as a means of injecting external capital into long-term projects, but they are tied to prescriptive outcomes and can prevent the public sector from adequately adapting to changing demand or external pressures. This can lead to poorer outcomes and higher costs: from the beginning of 2016 to the summer of 2018, contracts worth a combined total of over £120 million had to be renegotiated by government departments.²² Perhaps as a result of such issues, just six projects have used PF2 since its launch in 2012.²³

²¹ National Audit Office (2018). PFI and PF2.

²² House of Commons Public Administration and Constitutional Affairs Committee (2018). After Carillion: Public sector outsourcing and contracting. Seventh Report of Session 2017-19.

²³ House of Commons Committee of Public Accounts (2018). Private Finance Initiatives. Forty-Sixth Report of Session 2017-19.

Problems can be created when several parts of a project or service are bundled into one contract.²⁴ Although the design, build, finance and delivery of a complex service are likely to need diverse skills and assets, all of these components may be assigned to just one supplier. Too often bundling of these discrete phases is used to limit costs associated with contract set-up, which can adversely affect the quality of outcomes. It may also lead to over-dependency and complacency,²⁵ with a further by-product of excluding smaller suppliers.

CLOSED-DOOR: WEAK TRANSPARENCY AND ACCOUNTABILITY

“We’re managing public money and we need to be clear about expectations and outcomes.” Local authority chief executive

A closed-door culture can exclude the public from scrutinising decisions concerning partnerships between the public and private sectors, which can show a disregard for public interest. A lack of transparency and accountability was highlighted in the wake of Carillion’s collapse, with its business model described as “a relentless dash for cash, driven by acquisitions, rising debt, expansion into new markets and exploitation of suppliers”.²⁶ At its worst, accounting has become “a game of financial hide and seek”.²⁷ Grounds of commercial confidentiality have at times been used as a justification for restricting the provision of information.

This closed-door culture extends into the public sector and includes the absence of detailed information available to the public, superficial consultation and inadequate deliberation over major contracts. For example, tokenistic consultations can take place after significant decisions have already been made and work is already in progress. Recently, the termination of private probation contracts came after criticism that the

²⁴ Roehrich, J., Lewis, M.A., George, G. (2014). Are public-private partnerships a healthy option? A systematic literature review. *Social Science & Medicine*. Vol. 113, pp. 110-119.

²⁵ *ibid.*

²⁶ House of Commons Business, Energy and Industrial Strategy and Work and Pensions Committees (2018). Carillion.

²⁷ Higson, C. (2018). Two lessons from the failure of Carillion. Available at: <https://www.london.edu/faculty-and-research/lbsr/two-lessons-from-the-failure-of-carillion> [Accessed July 2018]

Government had given insufficient attention to warnings made in 2014.²⁸ These warnings raised concerns that reforms in probation, which involved payment-by-results contracts with the private and voluntary sector, would detrimentally affect performance and outcomes.

Shortfalls in the information available to the public is further compounded by poor data infrastructure within the public sector.²⁹ This provides poor cross-government information on partnerships between the public and private sectors and little scope to effectively monitor and evaluate performance.

LINEAR: A NARROW AND CENTRALISED APPROACH THAT NEGLECTS THE CREATION OF LONG-TERM VALUE WITHIN PLACES AND SYSTEMS

“We’ve reached the end in terms of the usefulness of linear rational planning models.” Toby Lowe, Senior Research Associate, Newcastle University Business School

Partnerships between the public and private sectors can be designed and delivered with a blinkered view to broader complex systems, and the unique assets and resources of specific places. One example is where suppliers do not pay employees the living wage, but the public sector does not account for how this affects a population in the long-term, such as increasing levels of poverty. The public sector pays for these negative externalities elsewhere in the system. People with an inadequate income are, for example, more likely to face housing issues,³⁰ require benefit support or live in poorer health.³¹

28 Grierson, J. (2018). Private probation companies to have contracts ended early. Available at: <https://www.theguardian.com/society/2018/jul/27/private-probation-companies-contracts-ended-early-justice> [Accessed August 2018]

29 The Smith Institute (2018). Out of contract: Time to move on from the ‘love in’ with outsourcing and PFI. See also: House of Commons Public Administration and Constitutional Affairs Committee (2018). After Carillion: Public sector outsourcing and contracting. Seventh Report of Session 2017–19.

30 Joseph Rowntree Foundation (2018). Housing and life experiences: making a home on a low income.

31 Joseph Rowntree Foundation (2014). How does money influence health?

The current national re-procurement of the NHS Diabetes Prevention Programme also demonstrates the pitfalls of a one-size-fits-all approach that neglects the importance of the places in which people live.³² NHS England is seeking to work with five providers to develop behavioural interventions, anywhere in England, to delay the onset of Type 2 diabetes. This broad approach arguably neglects the importance of local environments in shaping people's predisposition to Type 2 diabetes. Interventions should be shaped around places rather than services.

There are significant barriers to coordinating services that have been contracted-out, especially at the national level, with large providers delivering services commissioned by central government departments in particular parts of the country removed from other public services.³³ For example, the Work Programme to tackle long-term unemployment was commissioned directly by the previous Government to prime providers across sixteen contract package areas – inherently detached from the range of housing, skills and health support that is provided locally and can contribute to unblocking barriers to stable employment. The model has since been dismantled and replaced with a new “health and work programme” which now forms part of many devolution deals, an attempt at greater place integration.

A narrow, linear approach links closely to a light-touch and tokenistic approach to social value – the Social Value Act (2012) currently only requires the public sector to *consider* the wider social, economic and environmental impacts of decisions concerning large contracts.³⁴ By treating the delivery of a service or product as a transaction on a linear pathway, opportunities are missed to generate genuine social value within a place.

³² See: <https://www.contractsfinder.service.gov.uk/Notice/25b8ee79-7e27-4e86-b036-6c1adf2fd88?p=@8=UFQxUIRRPT0=NjJNT0>

³³ Institute for Government (2012). Making public services work: Professionalising government's approach to commissioning and market stewardship.

³⁴ See: <http://www.legislation.gov.uk/ukpga/2012/3/enacted>

CHANGING ATTITUDES TOWARDS PARTNERSHIPS BETWEEN THE PUBLIC AND PRIVATE SECTORS

The combined effect of these five challenges, which can affect partnerships between the public and private sectors in different ways, is that shifts are beginning to occur in attitudes towards these partnerships and how they are formed in practice. Local government is at the sharp end of this. New analysis undertaken by NLGN for this report shows that there is an emerging trend away from outsourcing within the local government sector.

A previous survey conducted by Ipsos MORI and Browne Jacobson just seven years ago seemed to demonstrate support for outsourcing to the private sector in local government – 85 per cent of senior managers reported that they would outsource services on a service by service basis to meet the challenges they faced, and 35 per cent reported considering large scale outsourcing or transformation.³⁵

Our own analysis reveals this stance towards outsourcing may have reached its limits. NLGN's Leadership Index (August 2018) asked leaders, chief executives and mayors about their plans to outsource over the next two years. While nearly half indicated no change (46 per cent), a significant minority (39 per cent) indicated that they would outsource less. Only 15 per cent forecast an increase in outsourcing in the near future (see Figure 1 on page 22).³⁶ These results are supported by analysis of recent spend: councils spent £77 million on contracts between January and June 2018, in contrast to £136 million over the same period in 2017.³⁷

While the picture with regard to outsourcing seems to be shifting, the reality for many local authorities is that the nature of their relationship with the

³⁵ Ipsos MORI (2011). Understanding society: national problems, local solutions. Available at: <https://www.ipsos.com/sites/default/files/publication/3117-03/sri-ipsos-mori-understanding-society-may-2011.pdf> [Accessed September 2018]

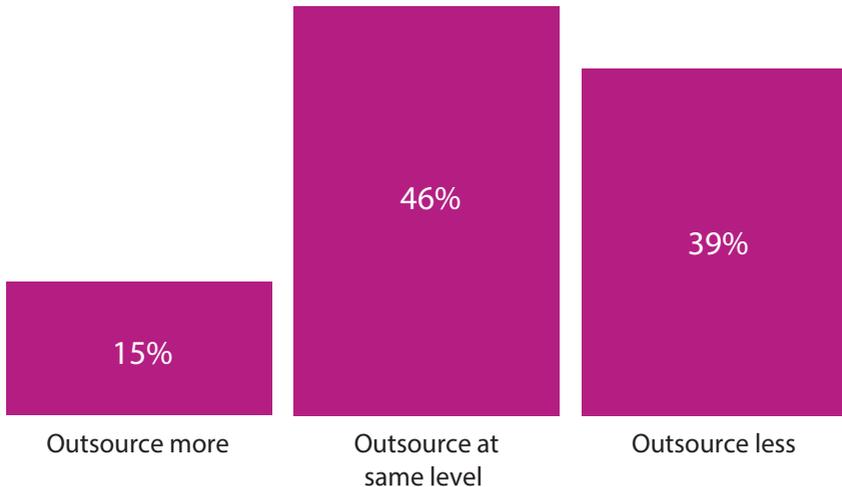
³⁶ See appendix. NLGN Leadership Index is a survey of leaders, chief executives, and council mayors of local authorities across the UK. It asks their level of confidence in key service areas and wider indicators of community wellbeing. The NLGN Leadership Index survey (August 2018) was sent to 767 leaders, chief executives and council mayors across the UK. It was open between 7 June and 2 July 2018.

³⁷ Arvato (2018). UK Quarterly Outsourcing Index: Q2 2018. Available at: <https://www.arvato.com/uk/insights/outsourcing-index/q2-2018.html> [Accessed September 2018]

private sector is getting more complex. In the context of government funding cuts to local authority budgets of nearly half in real terms since 2010, increasingly local authorities have been pursuing new ways of becoming more self-sufficient in order to maintain levels of service provision. One route to this is to develop more commercial strategies, which involve the public sector itself behaving in a more commercial way and generating new revenue streams.

This can be done by using capital investment for revenue return³⁸ or setting up trading companies. Research has found that in 2012/2013, entrepreneurial activities made up 6 per cent of council budgets, but this was expected to rise to 18 per cent by 2020 – a sum potentially worth upwards of £27 billion.³⁹

FIGURE 1 OVERALL, COMPARED TO THE LEVEL OF OUTSOURCING YOUR COUNCIL HAS OVERSEEN DURING THE LAST FIVE YEARS, DO YOU THINK THAT YOU WILL OUTSOURCE MORE OR LESS OVER THE NEXT TWO YEARS?



Source: NLGN Leadership Index (August 2018)⁴⁰

³⁸ See: NLGN (2016). Securing a Resilient Future: Capital Spending for Social Value.

³⁹ Localis (2015). Commercial Councils: The rise of Entrepreneurialism in Local Government.

⁴⁰ See Appendix.

Yet the nuances of this increasingly complex picture risk being lost in an increasingly polarised ‘in-house versus outsourced’ national political debate, which also obscures other significant voices from the conversation. The role of the voluntary and community sector (VCS) in the provision of public services is significant and is all too easily lost in the discussion. From large charities which contract nationally, to smaller community led organisations, the VCS brings unique understanding and insight into the provision of services.

There is also an issue that recent high-profile failures may act as a deterrent to the private sector taking on public contracts in any case. In the future, the private sector may increasingly step back from public service provision. Public trust is also dwindling following well documented instances of poor corporate behaviour and high public costs resulting from contract terminations and buyouts.⁴¹ Polling evidence demonstrates there is appetite on behalf of the public for more engagement; 54 per cent of respondents in the most recent Community Life Survey⁴² said they would like to be more involved in decisions made by their local council.

There is a risk that if the status quo is allowed to rumble on, the future relationship between the public and the private sectors will become increasingly fraught, beset by declining public trust and ever more reactive to crises that will inevitably emerge. There is a real opportunity now to rethink the relationship between the public and private sector, in the context of the wider ecosystem they operate within, and to set out how partnerships in the future can be fit for purpose.

⁴¹ European Services Strategy Unit (2017). European Services Strategy Unit Research Report No. 9: PFI/PPP Buyouts, Bailouts, Terminations and Major Problem Contracts in UK.

⁴² Department for Digital, Culture, Media & Sport (2018). Community Life Survey: 2017-18.

THE CASE FOR A NEW APPROACH

The discussion about public service provision must move beyond the means of delivery to the pursuit of high quality outcomes. The current national political debate on partnerships between the public and private sectors boils down to ‘in-house versus outsourcing’ and is not sufficiently engaged with the realities of an increasingly complex world. Public service provision needs to be capable of responding to reducing resource, rising demand and shifting citizen expectations.

A new approach to partnership between the public and the private sector is required, one which shifts away from transactional modes of operating, towards a changemaking relationship which is more capable of transformation. NLGN’s Changemaking Vision⁴³ called for radical reinvention in public service delivery to focus on culture and values to better meet the challenges of complexity and to be more responsive.

In the case of partnerships between the public and private sectors, this relational change means addressing ways of working, both internally and externally. Between partners, changemaking partnerships should involve mutual exchange of value. Professor Mariana Mazucatto has characterised the shift required as being one from “parasitic” to “symbiotic” relationships between the public and private sectors.⁴⁴ This change could, for example, include the shifts we are already seeing in parts of the public sector becoming more entrepreneurial, while parts of the private sector are increasingly looking to embed social value within their business models. But this transformation cannot operate in isolation. Partnerships must respond and adapt to a changing external context and engage stakeholders beyond the confines of a partnership contract. For example, Torvinen and Ulkeniemi⁴⁵ emphasise the interdependence between procurers, suppliers

⁴³ NLGN (2017). A changemaking vision for local government.

⁴⁴ Mazucatto, M (2018). We have socialised the risk of innovation but privatised rewards. Available at: <http://www.marcapolitica.org/2018/01/ruben-weinsteiner-mariana-mazucatto-we-have-socialised.html> [Accessed September 2018]

⁴⁵ Torvinen, H. & Ulkuniemi, P. (2016). End-user engagement within innovative public procurement practices: A case study on public-private partnership procurement. *Industrial Marketing Management*. October, pp. 58-68.

and users, and Hillary Cottam asserts that positive change in the design and delivery of public service relies on new collaborative models.⁴⁶ Meanwhile, a recent report from Collaborate stresses that high quality commissioning outcomes rely on people's interaction with systems and the development of positive and trusting relationships.⁴⁷

The emerging body of evidence points to the need for a radical rethink. Moving beyond transactional partnerships means challenging territorial, process-driven, rigid, closed-door and linear ways of working. The next section of this report will outline the core components and practical routes to delivery of a changemaking approach to partnerships.

⁴⁶ Cottam, C. (2018). *Radical help: How we can remake the relationships between us and revolutionise the welfare state.*

⁴⁷ Collaborate (2017). *A whole new world: Funding and commissioning in complexity.*

CHANGEMAKING PARTNERSHIPS: FIVE PRINCIPLES TO GUIDE PRACTICE

To become changemaking in practice, partnerships between the public and private sectors should aspire to embody a clear set of principles that will shift, instrumentally, the culture and modes of working between sectors. Our research identified five overarching principles, which each address in turn the challenges set out in the previous section, so that partnerships become more collaborative, creative, adaptable, accountable and place-based.

We set out these principles here and offer, for each, practical routes to implement them. Taken together, they offer a blueprint to achieve greater impact for public benefit from partnerships whereby the private sector takes on a role in the provision of public services.

1. COLLABORATIVE: AN INTEGRATED APPROACH ACROSS THE PUBLIC AND PRIVATE SECTORS

Collaboration is intrinsic to functional partnerships. Both public and private sector partners will have distinct attributes that will add value. In some instances, a private sector provider will hold specific technical expertise or be able to draw on economies of scale across multiple operations. Conversely, the public sector's commitment to the public good and wider understanding of people's needs form a central part of its stewardship role within partnerships. Rather than rigid boundaries drawn up between partners as in a territorial approach, collaboration should allow for distinct strengths and capacities to be combined effectively.

Risk-bearing responsibilities are inherent in the delivery of all public services. A key theme arising throughout the research was the role of risk – how it is identified, allocated and mitigated between partners.⁴⁸ Too often

⁴⁸ Roehrich, J., Lewis, M.A., George, G (2014). Are public-private partnerships a healthy option? A systematic literature review. *Social Science & Medicine*. Vol. 113, pp. 110-119. Also see: Also see: Boyer, E. J. & Van Slyke, D. M. (2018) Citizen Attitudes Towards Public-Private Partnerships. *The American Review of Public Administration*.

in the past, public sector bodies have sought to transfer risk unrealistically onto private providers.⁴⁹ But failings will inevitably revert back to the institution with the statutory responsibility and democratic accountability. A collaborative approach must be underpinned by a clear understanding of where responsibilities and risks lie between partners in a partnership. Where challenges arise both parties should be engaged in finding solutions.

PRACTICAL ROUTES TO CHANGE

MANAGING RISK: A clear, logical and actionable understanding of the risks within a partnership is crucial. A useful example of risk being effectively apportioned is the Thames Tideway Tunnel. The project was agreed with a government support package – financial support will be triggered if specific, low probability but high-impact risks occur such as disruption of underground transport. This agreement improves the project’s credit profile, helping to attract investment and provides a very clear understanding of where responsibilities lie in the partnership.⁵⁰

CO-COMMISSIONING AND CONSORTIUM BIDS: where appropriate, public sector bodies can come together to co-commission services and private sector bodies may develop consortium bids.

INVEST IN CLIENT-SIDE CAPACITY: Active management of relationships with the private sector requires the public sector to invest in commercial and contracting skills. This avoids costs later down the line from poorly conceived or managed partnerships. Public sector bodies must understand how their providers are intending to generate profits over the duration of a contract and the overall mechanics of the partnership from their partners’ viewpoint. If a price looks too good to be true, it may well be. A skilful client-facing function on behalf of the provider must also build channels of communication and relationships with a range of actors within a partnership – recognising that a ‘client’ is often not a single entity.

⁴⁹ House of Commons Business, Energy and Industrial Strategy and Work and Pension Committees (2018). Carillion.

⁵⁰ Institute for Government (2018). How to get better finance deals for infrastructure.

CASE STUDY 1: QWEST – RISK MANAGEMENT IN A JOINT VENTURE PARTNERSHIP

Established in 2015 as a Joint Venture (JV) between ENGIE and Chester West and Chester Council (CWAC), Qwest is a company that holds responsibility for the following aspects of service provision in the borough: customer services, building control and maintenance, cleaning, digital transformation and business support. More recently, the partnership has extended to include a new local domestic energy platform called Qwest Energy.

The partnership sought to ensure that its governance and operating structures were balanced and incorporated an equitable treatment of risk – reflecting each organisations skills, capabilities and standing. On this basis, ENGIE provide initial investment capital and CWAC can rely on a guaranteed return from the organisation's revenues. As a result, the council is able to withdraw money from the partnership, and its own investment is secure whilst also achieving significant savings over the course of the contract. Some of ENGIE's initial investment takes the form of digital transformation through a new Customer Relationship Management system. There is also a strong citizen-based component to the project. For example, under the QWEST Energy platform of the JV, a reduced tariff for energy poor districts in the borough has been launched.⁵¹

2. CREATIVITY: A WILLINGNESS TO EXPLORE NEW IDEAS AND TAKE A PROBLEM-SOLVING APPROACH

Creativity requires a departure from approaches that are familiar and a shift in mindsets towards a problem-solving approach, rather than following prescriptive ways of working that lead to processes as an end in themselves. When it comes to procurement of services, public sector

⁵¹ See: <https://www.engie.co.uk/about-engie/news/engie-enters-local-authority-energy-white-label-market-with-qwest-energy/>

bodies should look to approach this with a 'blank sheet of paper' approach, rather than a pre-determined model. Too often, there can be a view that 'going through procurement' is a dull but necessary hurdle to get over – when it is actually an opportunity to test the market, price and outcomes that can be achieved. Leaders and chief executives need to recognise the strategic role of procurement and align it clearly with the strategic policy direction of the council.

Building on the principle of collaboration, creativity also requires opportunities to build dialogue, refine options and enhance knowledge across both the public and private sectors.

PRACTICAL ROUTES TO CHANGE

ELEVATE THE STATUS OF THE PROCUREMENT PROFESSION: Leaders in the public sector must recognise the strategic role of procurement and empower the procurement profession. One way in which this can be approached is for local authorities and commissioning bodies to increase usage and accessibility of forums through which procurement professionals can undertake peer-learning and learn about novel approaches, so they are able to trial new methods in their own working.⁵² The community wealth building model pioneered by Preston City Council (see case study 3 on page 30) involves the empowerment and the development of a more creative culture within procurement.

PROVIDE SPACE FOR CREATIVE THINKING: One interviewee explained the approach taken in her council, where they create forums in which a wide set of stakeholders will assemble and outline their perspectives. Such initiatives could of course seek to involve providers other than the private sector, namely the third sector, in order to foster wider relationships.

ENCOURAGE DIVERSE APPROACHES: A more creative approach may also involve a greater diversity of forms of partnership. This includes partnerships that retain a greater stake of influence for the public sector, such as joint ventures that harness the expertise and capabilities of a

⁵² Smith Institute (2018). Out-of-contract: Time to move on from the 'love in' with outsourcing and PFI.

private provider, while retaining a significant stake in a service or product. This is a model that is increasingly being taken up by councils for the purposes of housing delivery.⁵³

CASE STUDY 2: WELSH MUTUAL INVESTMENT MODEL – PROFIT SHARING

A form of infrastructure delivery adopted by the Welsh Government presents an interesting approach to raise capital for large projects and share revenues between partners. The Mutual Investment Model (MIM) involves the Welsh Government taking a minority equity stake in the project company and sharing the project profits with the private sector parties engaged in the contract.⁵⁴ MIM has been piloted through three infrastructure projects in Wales: the dualling of the A465 road, the new Velindre Cancer Centre in Cardiff and a significant tranche of the next phase of the 21st Century Schools Programme in Wales.⁵⁵

CASE STUDY 3: COMMUNITY WEALTH-BUILDING IN PRESTON – A CREATIVE APPROACH TO PROCUREMENT

Drawing on work in areas including Cleveland in the US, Preston Council is working with several anchor institutions⁵⁶ to encourage the development of supply chains that benefit the local economy, as part of a broader transformation of procurement culture that has been underway since 2011. Where appropriate and cost-effective, the council helps these anchors to identify opportunities to source

⁵³ Barker, N. (2018). Councils set up 58 housing companies since 2012. Available at: <https://www.insidehousing.co.uk/news/news/councils-set-up-58-housing-companies-since-2012-54634> [Accessed July 2018]

⁵⁴ Walker, M. (2017). Evolving infrastructure models in the UK – one step forward, two steps back. Available at: <http://blogs.worldbank.org/ppps/evolving-infrastructure-models-uk-one-step-forward-two-steps-back> [Accessed June 2018]

⁵⁵ Ashurst. (2017). A new model for Welsh infrastructure: 'MIM'S the word!'. Available at: <https://www.ashurst.com/en/news-and-insights/insights/mutual-investment-model/> [Accessed July 2018]

⁵⁶ Anchor Institutions are local institutions such as universities, local emergency services and housing associations that cannot relocate from the local area. See: <https://community-wealth.org/strategies/panel/anchors/index.html>

locally, as well as facilitating collaboration between anchor institutions to discuss issues and interests they have in common. The council's tender documents include wider social, economic and environmental considerations for suppliers where this is relevant, proportionate and appropriate to the subject-matter, and they offer advice on how to bid for these contracts. For example, the council encourages businesses to employ apprentices through its tender documents, leading to the development of skills and employment opportunities in the local area.

Between 2012/13 and 2016/17, six anchor institutions within Preston increased their combined procurement spend by £74 million within Preston and £200 million in wider Lancashire.⁵⁷ Meanwhile, employment opportunities have been created, the council is paying all staff the living wage and Preston's Index of Multiple Deprivation has declined.⁵⁸ There has been a particular focus on engaging SMEs and using procurement to achieve wider social and environmental benefits. Preston has been able to share its valuable insights from the Preston Model as well as learning from other cities such as Bologna, which has specific legislation around green and social procurement.⁵⁹

Preston's approach to procurement exemplifies creativity, collaboration and an approach rooted in place. Preston has adopted a new mindset and culture in procurement, embedding this into its wider strategy and rejecting process-driven ways of working. The council is facilitating diverse partnerships across sectors and the community, including: neighbouring councils, large anchor institutions, local businesses and residents. Proponents of the approach have called it an "ecosystem of change".⁶⁰ The wider costs and benefits of decision-making run through Preston's approach to community-wealth building, demonstrating accountability to the local population.

⁵⁷ Preston City Council (2018). Community Wealth Building in action. Available at: <https://www.preston.gov.uk/thecouncil/the-preston-model/implementing-community-wealth-building-approach/> [Accessed September 2018]

⁵⁸ *ibid.*

⁵⁹ Preston has extended this innovative approach to procurement through 'Procure' – a network of 11 European cities. See: <https://www.preston.gov.uk/thecouncil/the-preston-model/international-work/procure/>

⁶⁰ Howard, T. (2017). The Preston model: UK takes lessons in recovery from rust-belt Cleveland'. Available at: <https://www.theguardian.com/cities/2017/apr/11/preston-cleveland-model-lessons-recovery-rust-belt> [Accessed September 2018]

3. ADAPTABILITY: A FLEXIBLE AND CONSIDERED APPROACH

Operating an adaptable approach to service delivery through partnerships between the public and private sectors requires an understanding that different phases of long-term projects will involve distinct requirements and approaches. Partnerships should allow for change over time such as shifts in demand, and discrete phases of work should not be approached in a uniform way – for example, outcomes in year ten should be much deeper than those in year one of a contract. Research by the Institute for Government found that when commissioning, government has failed to sufficiently value the types of flexibility that could help a system adapt to unpredictable developments.⁶¹

PRACTICAL ROUTES TO CHANGE

DIVIDE CONTRACTS INTO DIFFERENT PHASES: Flexibility can be afforded by separating different parts of a project, rather than the bundling of many stages of a long-term project within one single contract. It is inevitable that a long-term project that lasts for fifteen years or more will be subject to fluctuations across costs, economic conditions and demand.⁶² Planning should recognise this and attempt to provide the necessary flexibility.

The separation of large contracts into components does however imply a trade-off. There are economies of scale with large contracts that subsume multiple phases with a single provider. Increased complexity can also be created when large projects are divided up, with attendant risk implications. Such an approach should therefore be approached on a case by case basis.

INTRODUCE BREAK CLAUSES: To mitigate risk and enhance flexibility further, contracts should include exit opportunities triggered by significant

⁶¹ Institute for Government (2013). Making public service markets work – professionalising government’s approach to commissioning and market stewardship.

⁶² Tinham, R (2018). The end of public-private partnerships? Available at: <https://www.localgov.co.uk/The-end-of-public-private-partnerships/45112> [Accessed June 2018]

changes in the provision of the providers – such as the contractor being acquired by a private equity firm. This mechanism has been called for by Haslam and Tsitsianis, as a tool that can allow parties to walk away from contracts that are not working.⁶³

CASE STUDY 4: BRAINTREE DISTRICT COUNCIL LEISURE SERVICES – FLEXIBLE CONTRACT MANAGEMENT

In 2011 Braintree District Council (BDC) embarked on a competitive tendering process for the delivery of their leisure services. When BDC began to re-evaluate their leisure service requirements, it was clear that demands on specific facilities had changed over recent years. Part of the renewal of the contract led to a change in the range of facilities that BDC were to provide and a review of the outcomes that a leisure contract could deliver such as encouraging hard to reach groups of the population to get active. This, in turn, set the contract up for a better financial return for the council and an opportunity to develop the existing facilities.

A new approach was required and BDC sought to find a provider that would help to deliver a truly transformative service. As part of the renewal of their offer – BDC made leisure much more of a corporate priority. A 'Live Well' brand has been adopted by BDC as a campaign to increase engagement with the physical and mental health opportunities that are available in the area, and to act as a preventative measure.

The new contract was awarded to Fusion – a sports and leisure management company – and came in to effect on 1st September

63 Haslam, C., & Tsitsianis, N. (2018). Stress testing outsourcing companies used by the UK Government. Written evidence to the Public Administration and Constitutional Affairs Committee. Available at: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-administration-and-constitutional-affairs-committee/sourcing-public-services-lessons-to-be-learned-from-the-collapse-of-carillion/written/81521.html#_Toc511379226v [Accessed September 2018]

2012.⁶⁴ The leisure facilities offer was designed and managed in light of the local area's public health strategy. For example, outcomes in the agreement were based on health outcomes and community impact – beyond simply the management of the facilities.

The separate phases of work were divided up in the new contract to reflect three different phases: building and design, refurbishment and operation. To improve coordination, the contractors of each phase of work collaborated closely. For example, the operator had a say in how the facilities were designed. By separating out these phases and service components, BDC could ensure that they got the specific skills and value that each phase specifically warranted.

A strong working relationship has been key to the success of this partnership. The direct relationships between senior Fusion and BDC staff, as well as cabinet members of the council, were established at the beginning of the project. Contextual changes have been observed and factored in to planning throughout the contract. An annual service plan is produced, which can be adjusted on account of recent trends. BDC and Fusion hold a joint meeting each year to divide how this annual plan will be developed.

There have been good outcomes from the service, which has developed into a revenue generating scheme, with a 16 per cent return on investment for the council. Total income generated by facilities has increased by 45 per cent and participation in leisure has increased by 30 per cent.

64 Government Opportunities (2012). Fusion Lifestyle heralds £1 million investment into sport and leisure. Available at: <http://www.govopps.co.uk/fusion-lifestyle-heralds-1m-investment-into-sport-and-leisure/> [Accessed August 2018]

4. ACCOUNTABILITY: TAKING RESPONSIBILITY FOR CREATING OUTCOMES THAT ARE IN THE BEST INTERESTS OF THE PUBLIC

High levels of transparency and accountability must be embedded into the practice of partnerships between the public and private sectors, overturning closed-door practices. This is vital to improve the quality of outcomes and restore public trust that has been eroded in the wake of high-profile failures. Key to providing sufficient accountability to the public – responsibility for performance and outcomes – is to encourage and harness their involvement in services themselves.

The public sector needs sufficient data and evaluative tools to understand the full extent and impact of their spend. For example, there is currently limited understanding of whether PFI schemes are indeed good value for money.⁶⁵ A much more rigorous approach is required, to understand how this money flows and the value for money that contracting with the private sector represents.

Greater transparency and accountability also translates to how private sector companies operate internally and the culture they foster. The business model of the large outsourcing companies has been extensively critiqued⁶⁶ and in the high-profile case of Carillion, among many failings, a lack of accountability embedded in the corporation's culture contributed significantly to its downfall.⁶⁷ This need for stronger accountability should involve deeper government understanding of firms that are consolidating companies as this can create potential instability risks resulting from financial operating structures.

⁶⁵ Atkins, G. (2018). Government will spend over £10bn on private finance deals this year but can't tell you if they're worth it. Available at: <https://www.instituteforgovernment.org.uk/blog/government-spends-billions-on-PFI-cant-tell-if-theyre-worth-it> [Accessed July 2018]

⁶⁶ House of Commons Public Administration and Constitutional Affairs Committee (2018). After Carilion: Public sector outsourcing and contracting. See also: House of Commons Business, Energy and Industrial Strategy and Work and Pension Committees (2018). Carillion.

⁶⁷ Drew-Smith, S. (2018). The Collapse of Carillion – a failure of Ethical Standards? Available at: <https://cspl.blog.gov.uk/2018/02/01/the-collapse-of-carillion-a-failure-of-ethical-standards/> [Accessed July 2018]

PRACTICAL ROUTES TO CHANGE

DATA DISCLOSURE: A greater degree of data on the performance of partnerships could be ascertained if commissioning bodies included data disclosure clauses in contracts.⁶⁸ Calls have previously been made to enforce full transparency on the subsidiary companies that are utilised by providers delivering public services. Such a step would be relevant mostly to the large outsourcing firms. In order to improve public sector contracting, government must gain a firmer grasp of the supply chains that sit underneath contracts.

OPEN BOOK ACCOUNTING: This would provide transparency of operational and financial performance and has the potential to provide greater accountability for outsourced public services.⁶⁹ Issues that would need to be considered with open book accounting include whether it should apply for specific contracts or organisations as a whole.

PUBLISH A BUSINESS CASE FOR OUTSOURCING: This would mean that commissioning bodies entering into contracts with the private sector would be more able to evaluate performance against the originally stated objectives of the contract. Such an approach would also help generate more rigorous and accountable modes of working, as well as helping to increase public awareness and support of partnerships. The client and provider may also, on occasion, agree to make a contract public in order to demonstrate full transparency, with commercially sensitive information redacted as necessary.

PUBLIC ENGAGEMENT: The public must be involved in the specification and management of a contract. There are many ways this can be put into practice. It may involve service users and representative groups, as well as staff groups and trade unions, being involved at the point of procurement and through contract evaluation.⁷⁰ Community steering groups are one mechanism that can be used through the life-course of a project (see case study 5 on page 37). The outsourcing of the BBC television licence

⁶⁸ Institute for Government (2017). Public versus private: How to pick the best infrastructure finance option.

⁶⁹ National Audit Office (2015). Open book accounting and supply-chain assurance.

⁷⁰ Smith Institute (2018). Out-of-contract: Time to move on from the 'love in' with outsourcing and PFI.

fee service is an example of public involvement in evaluative mechanisms. Service users were surveyed as part of the project's evaluation.⁷¹

CASE STUDY 5: COPENHAGEN – PUBLIC PARTICIPATION IN URBAN REGENERATION

Copenhagen has been commended for its innovative public private partnerships,⁷² public sector entrepreneurialism⁷³ and clear routes to public participation in decision-making.⁷⁴ One area where this public involvement in decision-making is particularly evident is in urban regeneration projects, also known as Områdeløft.

Områdeløft aims to “initiate new and positive physical, social, cultural and environmental development”⁷⁵ in areas of multiple deprivation with, for example, high levels of poor housing or unemployment. There are three deep phases of citizen involvement:

1. **AREA PLAN STAGE:** this involves initial meetings with residents; creation of elected working groups; and the development of an area plan with the municipal administration.
2. **IMPLEMENTATION STAGE:** this includes the development of more detailed project plans with residents, including monthly steering group meetings. Efforts are made to ensure that it is not simply the voices of those who attend meetings that are heard. Different forms of communication are used to reach out to all parts of the community. For example, gaining insights from children about meaningful places in their area.⁷⁶

⁷¹ National Audit Office (2017). TV licence fee collection.

⁷² The King's Fund (2018). The role of cities in improving population health: international insights.

⁷³ Katz, B., Noring, L (2016). 'Why Copenhagen works'. The Brookings Institution website. Available at: www.brookings.edu/research/why-copenhagen-works/ [accessed September 2018].

⁷⁴ Maddox (2012). 'Public participation in local urban renewal projects'. Available at: <https://core.ac.uk/download/pdf/12522261.pdf> [Accessed September 2018]

⁷⁵ City of Copenhagen: Technical and Environmental Administration (2007). 'Områdeløft in Copenhagen'. Available at: http://publicartonline.org.uk/casestudies/regeneration/sit_down/documents/UrbanRegenerationPlan.pdf [accessed September 2018] See also: Technical and Environmental Administration (2012). 'Integrated Urban Renewal'. Available at: kk.sites.itera.dk/apps/kk_pub2/pdf/870_hHa1d53AJZ.pdf [accessed September 2018]

⁷⁶ Maddox (2012). 'Public participation in local urban renewal projects'. Available at: <https://core.ac.uk/download/pdf/12522261.pdf> [Accessed September 2018]

- 3. ANCHORING STAGE:** this final stage ensures the sustainability of projects and gathers experiences of those involved in the process to guide future work.

Projects are co-financed by the state, municipalities, businesses, landowners and other organisations. Part of the initial stage of projects includes the development of an investment plan.

Områdeløft exemplifies a shift in Danish planning, from a “closed and technocratic”⁷⁷ starting point in the mid-to-late 20th century, towards a creative and collaborative approach, with high levels of accountability to the public. Hans Thor Andersen from the Danish Building Research Institute (2012) commented:

“When [planning] was a technical issue, what you did was that you hired a bunch of architects and engineers that could come and say: you do this this this, and then you would have a modern building... Now you cannot tell people what to do with their lives, so you have to invite them in and make them part of the process.”⁷⁸

The public are not simply involved in a tokenistic consultation at the start of the project. Residents contribute heavily to three distinct phases of project development and implementation, helping to ensure the longevity of area regeneration. Efforts are also made to ensure this resident voice is representative of the community as a whole. By its very nature, area regeneration is rooted in place, but this focus extends beyond the physical environment. Områdeløft is highly multidisciplinary in its approach, demonstrating an awareness of the complexity of places. This includes the development of different working groups around culture, the physical environment and social issues, working together to develop lasting change through area regeneration.⁷⁹

⁷⁷ *ibid.*

⁷⁸ *ibid.*

⁷⁹ Grønenberg, K., Mikaela, A., Freiesleben, (2015). ‘Right kinds of mixing? Promoting Cohesion in a Copenhagen Neighbourhood’, *Nordic Journal of Migration Research*. Vol 6(1), pp. 49-57.

CASE STUDY 6: B CORPORATION – DRIVING A CULTURE OF SOCIAL RESPONSIBILITY

The B Corporation movement provides a useful example through which businesses can seek to redefine their methods of working in a way that embraces rigorous standards of social and environmental performance, accountability and transparency. Under the B Corporation model, businesses sign a declaration, which reaches beyond the certification of products or services. The focus is much broader and includes the impact businesses have on their employees, wider community, environment and customers. The movement moves beyond the current status quo of short-termism, placing emphasis on complexity, interdependency and place.⁸⁰

5. PLACE-BASED: WORKING IN A WAY THAT SEEKS TO CREATE VALUE IN A PLACE

Partnerships do not operate in a vacuum and must work to provide long-term value for the communities in which they are based across economic, societal and environmental concerns. The impact of a partnership with a private sector body will have implications far beyond one organisation and its balance sheet and this complexity can only be managed by considering the place as a whole.⁸¹ It is vital that the broader impacts are considered over short-term cost implications, for example that a contract agreed with a private sector provider should not result in wage deflation, which would harm a local economy.

The contemporary landscape of service provision is a diverse ecosystem of public, voluntary, private and blended approaches, across the spectrum from mainstream universal services to highly specialised support for the most complex needs. A linear model that neglects this diversity or is not integrated into the wider system, will not be effective in this context. There is increasing

⁸⁰ See 'About B Corps'. B Corps. Available at: <https://bcorporation.net/about-b-corps> [Accessed September 2018]

⁸¹ New Economics Foundation (2018). Out of Contract: A toolkit for local authority contracting.

recognition of the need for place-sensitivity and to work with the wider assets and resources that exist within communities and individuals themselves.⁸²

PRACTICAL ROUTES TO CHANGE

A RENEWED APPROACH TO THE SOCIAL VALUE ACT: The Social Value Act – which came into force in 2013, with the intention of injecting social value into procurement – has all too often become output-focused, reduced to the lowest common denominator. There are opportunities to utilise long-term partnerships between the public and private sectors that invest in a place over a sustained period of time. Such relationships should be based on the specific needs that exist in a locality. Contracts should be calibrated to incentivise the provider to deliver against objectives that will stand to benefit the local community. The Civil Society Strategy set out the Government’s pledge for central government departments to “account for” the Social Value Act rather than only “consider” it.⁸³ Yet more needs to be done to foster a socially-minded approach to commissioning. Both the private and public sector should adopt practices that will lift the measurement of social value to the achievement of more ambitious social *impact*. These measures are outlined in the policy recommendations of this report.

INVOLVE ELECTED MEMBERS: At the local level, elected members should be brought more centrally into the oversight of a partnership to improve the perception of accountability that the public and service user have of privately-run public services. This might include forums with the public, elected members, senior officials and private providers. Members also need to have a good understanding of Green Book guidance so that they can scrutinise decision-making on partnerships to ensure social impact is delivered.

ENCOURAGE SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

INVOLVEMENT: To avoiding over-reliance on one provider, commissioning bodies should seek to encourage a diverse range of suppliers, which could include local small and medium-sized enterprises (SMEs). Local authorities could seek to establish networks of local SMEs as potential

⁸² See for example: Collaborate and NLGN (2016). *Get Well Soon: Reimagining Place-based Health*.

⁸³ HM Government (2018). *Civil Society Strategy: Building a future that works for everyone*.

providers and regularly engage with them, both prior to, and at the point of commissioning, in order to foster dialogue and awareness. There is a pressing need to diversify the pool of potential contractors. At the national level, there is a central government target to increase procurement spend with SMEs to 33 per cent by 2022, but it dropped from 24 per cent to 22.5 per cent between 2015/16 and 2016/2017.⁸⁴

CASE STUDY 7: ESSEX COUNTY COUNCIL – THREE-WAY PARTNERSHIP BETWEEN THE PUBLIC, PRIVATE AND VOLUNTARY SECTOR FOR TRANSFORMATIONAL CHILDREN'S SERVICES

When Essex County Council (ECC) entered into a partnership with Virgin Care and Barnardo's for the delivery of their children's services, the contract replaced a complex web of multiple arrangements that were previously in place – sixteen in total. By unifying their children's services social care package into a single contract, the council was able to provide a far more consistent service package for the county. The partnership was however slightly different in the western part of the county, where, working alongside the West Essex Clinical Commissioning Group, community nursing, paediatric care, therapies and specialist services have also been provided.⁸⁵

Barnardo's involvement is based on 30 per cent of the contract value. Their role is to provide family hub units in each of the twelve districts of the county. Integrated, health family teams were embedded in each of these hubs. The hubs also have an important role in providing social value and community resilience, with £500,000 of the service budget made available for funding local organisations to help focus on peer

84 Crown Commercial Services & Cabinet Office. (2017) Central government spend with SMEs 2015 to 2016. Available at: <https://www.gov.uk/government/publications/central-government-spend-with-smes-2015-to-2016> [Accessed September 2018]

85 Gaunt, C. (2016). Virgin care to run Essex children's services with Barnardo's. Available at: <https://www.nurseryworld.co.uk/nursery-world/news/1159869/virgin-care-to-run-essex-childrens-services-with-barnardos> [Accessed August 2018]

support and parenting programmes.⁸⁶ The buildings that the hubs are based in have been developed into community assets and made available to a range of community groups. The provision of apprenticeships within the hubs' activities was also a contractual requirement.

In-depth ethnographic research was undertaken prior to the commissioning of the services. This revealed two key issues. Firstly, that parents in the county suffered a high degree of social isolation, far more than national averages. Secondly, that parents value peer support.⁸⁷ Consideration of these findings were built into the design of the service. It was important that the loneliness experienced by parents could be addressed, and this was instrumental in the creation of community hubs that could help assuage the impacts of this isolation among parents. The service design also included co-design techniques, as undertaken through Children Centre's teams, which provided important insights built into the broader service. These included: the need to find ways to ensure that parents do not receive conflicting advice and support from different families and helping parents to learn the practical skills to help them look after their children, family and themselves well.⁸⁸

Since commencement, the contract has been managed in part through monthly performance meetings and monthly stakeholder meetings. The relationship pursued and developed by the council was that of an alliance, rather than a commissioner-provider association. The service management and evaluation is based on an outcomes approach, with 23 principles of performance – each with more specific indicators underneath. Evaluation is not fixed on these measures alone. With softer forms of intelligence also brought into its management, including parents' perspectives.⁸⁹

86 Essex County Council & NHS (2017). Pre-Birth to 19: A New Vision for Essex. Available at: <https://www.local.gov.uk/sites/default/files/documents/5.%20Pre-Birth%20to%2019%20-%20A%20New%20Vision%20for%20Essex%20-%20Chris%20Martin%2C%20Essex%20CC%20and%20Jess%20Ford%2C%20WECCG.pdf> %20A%20New%20Vision%20for%20Essex%20-%20Chris%20Martin%2C%20Essex%20CC%20and%20Jess%20Ford%2C%20WECCG.pdf [Accessed August 2018]

87 *ibid.*

88 *ibid.*

89 *ibid.*

We have identified these principles in order to guide practice, yet the context for partnerships between the public and the private sectors is not uni-dimensional – how they interact with and reinforce each other will determine their impact. Is there the right political alignment and buy-in to land a big project? Does a commissioning body have the right skills to achieve them in practice? Is there a particular localised public issue or backlash that necessitates a particular course of action? These factors sit behind the five principles and decision-makers will need to have regard to these before embarking on a particular path.

Alone, these principles are not enough. Both public client and private provider operate within a wider national framework that needs to be attuned to enable changemaking partnerships. In the concluding section, we identify a range of recommendations which taken together would realise a deeper systemic shift to recast the relationship between the public and the private sector, to the ultimate benefit of the people who use the services.

CONCLUSION AND RECOMMENDATIONS TO SUPPORT CHANGEMAKING PARTNERSHIPS

This research has identified a number of systematic shortcomings in the practice of partnerships between the public and private sectors, which we characterise as transactional. Relationships and cultures that do not foster wider value creation often lie at the heart of such partnerships. For partnerships to be truly changemaking they need to transform to become collaborative, creative, adaptable, accountable and place-based.

For these principles to be achieved in practice a deeper system shift must occur. This section sets out recommendations that would change the framework within which the relationships between the public and private sectors are forged. The changes these recommendations would catalyse are absolute necessities in order for partnerships to be a vehicle that people trust and as a means through which governments, locally and nationally, can aspire to provide genuinely world-class public services.

FOR THE PUBLIC SECTOR

- **REPLACE SOCIAL VALUE WITH A NEW STRONGER MEASURE OF SOCIAL IMPACT** and be prepared to drive long-term change rather than focus on avoiding short-term costs. Rather than a “tick-box” exercise⁹⁰ public and private sector partners should replace consideration of social value with a more comprehensive understanding of social impact. A new measure of social impact would, for example, account for staff being paid the living wage,

⁹⁰ NLGN (2017). Social Value in Procurement: Roundtable write-up.

recognising that the costs of this fall elsewhere in the public sector, and ensure commissioning bodies have regard for this.

Social impact objectives must be measurable, made public, based on consultation and actively built into the contract management component of partnerships. Measurement of social impact within partnerships should be linked to the commissioning body's overall strategy and to specific stipulations within a contract, providing communities with an entirely clear picture of what benefit partnerships are delivering for their areas.

■ **MAINSTREAM PROCUREMENT INTO CORE STRATEGIES.**

Procurement should not be seen as a technical and process-driven function. Public sector spend should be recognised as a core strategic lever to drive social impact, which can benefit the local economy through well-designed contracts – such as supporting SMEs and the VCS. Local government procurement should align closely to wider council strategic plans. Procurement teams must be genuinely empowered to have a wide range of conversations that can provide them with the market assessment and intelligence that they require. A stronger culture of external collaboration between local authorities could also help to increase purchasing power and further leverage the provider market towards broader social outcomes.

- **INVOLVE THE PUBLIC IN MEANINGFUL WAYS.** For large or significant projects or services, this should include community steering groups that operate across the design, delivery and evaluation of a project or service. Representatives of community steering groups should attend regular project stakeholder meetings and be actively built into the governance of the partnership, all of which will help foster trust with the public. The public can also be engaged in other ways including evaluative mechanisms such as customer satisfaction surveys. Engagement and involvement of the public, along with the private sector partners, should form the basis of partnerships operating on a tripartite basis.

FOR THE PRIVATE SECTOR

- **APPROACH PARTNERSHIPS WITH THE PUBLIC SECTOR AS A SHARED ENDEAVOUR, NOT A SINGLE PRODUCT OR SERVICE.**

This includes developing a detailed understanding of the skills, assets and capacity of each partner. Such an approach also requires that partners address risk responsibly and are problem-solving in the way they work, when it comes to any unforeseen challenges that may arise; based on the spirit of being outcomes-based, flexible and adaptive. Secondments could be mandated within large contracts that would allow for cross-sector learning and act as a tool to generate greater understanding and collaboration across sectors.

- **ACCEPT ACCOUNTABILITY TO THE PUBLIC.** Approach partnerships as business-to-citizen initiatives not business-business transactions. An accountability code of conduct should govern practice in this area to promote transparent working practices and engender positive corporate cultures. The code of conduct should include full data disclosure and open book accounting on large public sector contracts of £1million and over. This code of conduct would be tailored to each partnership but share certain core characteristics, such as a commitment to make public the subsidiaries that they will engage within a contract's supply chain. To help provide demonstrable accountability, codes of conduct should commit to bringing performance data and relevant business plans into the public domain, as well as data on transactions between companies' internal units and their subsidiaries.

Contractors must also be open to requests from the National Audit Office (NAO) and other inspectorates. To aid transparency, providers should ensure that all sub-contracting opportunities (and award notices) worth over £25,000 are made public. This would provide contracting authorities with a firmer understanding of their supply chains.

- **INTRODUCE A SOCIAL RESPONSIBILITY ACCREDITATION SYSTEM.**

All firms bidding for public sector contracts of £200,000 or more should commit to a social responsibility accreditation scheme. For

example, this could be similar to B Corporation status,⁹¹ a business certification that considers environmental and social outcomes beyond the immediate impact of their operations. The accreditation should not be led by the private sector – the public sector and government should consult and determine how the scheme would be governed and managed.

FOR THE GOVERNMENT

- **IMMEDIATELY UNDERTAKE A SUBSTANTIVE REVIEW TO IDENTIFY THE STEPS NEEDED TO PROVIDE GREATER TRANSPARENCY ON PRIVATE CONTRACTS.** This review should establish a framework for the creation of a world-class data infrastructure framework that would boost transparency across procurement spend with the private sector and ensure that public money is rigorously accounted for. New data reporting rules should increase the availability of evidence on cost, quality and performance in terms of the return on investment from procurement spend with the private sector. The development of such an approach will help to restore public confidence in the private sector's role within public service delivery.
- **INTRODUCE A COMPULSORY TRAINING SCHEME FOR PROCUREMENT PROFESSIONALS** to support transformation within the profession. This should include training on social impact in relation to skills, strategic insights and culture, affording it greater weight in terms of goals, measurement and impact. This approach could be further supported by encouraging interdisciplinary working and learning opportunities. The Public Services Transformation Academy provides this role but membership and participation is based on a fee, making it inaccessible for many in the profession. Government should invest in a 'What Works Centre' for procurement to share best practice and facilitate peer-learning to help drive standards upwards.⁹²

⁹¹ Delves, A. (2018). What are B Corps, and how do you become one? Available at: <https://www.simplybusiness.co.uk/knowledge/articles/2018/02/what-is-a-b-corp-all-you-need-to-know-about-b-corp-certification/> [Accessed July 2018]

⁹² The creation of a 'What Works' centre of excellence for 'applied contracting' was previously called for by the Public Administration and Constitutional Affairs Committee. See <https://publications.parliament.uk/pa/cm201719/cmselect/cmpubadm/748/748.pdf>

■ **RECOGNISE THAT PARTNERSHIPS BETWEEN THE PUBLIC AND PRIVATE SECTORS ARE NOT A SOLUTION TO AUSTERITY.**

Government must invest in the capacity of the public sector to manage increasing demand for public services, working with existing assets and resources of places to oversee an ecosystem of provision. The Spending Review in 2019 is an ideal opportunity to assess the impact of spending cuts to the public sector over the last nine years. It would also be a chance to better align public service budgets locally to account for the social impact of spend and incentivise long-term joint investment plans over short-term cost-shunting between organisations.

Partnerships have arguably become more transactional because they have primarily been considered as a route to cut costs. If government want to utilise the private sector only as a means of driving costs down and blunting the impact of austerity, then partnerships will not deliver high quality public services.

This report provides a new voice to the debate surrounding the role of the private sector in the delivery of public services, which is currently polarised along party political lines. Private providers are deeply embedded within the machinery of public service provision, at both a national and local level. To simply discount their role is unrealistic.

The report has set out how these partnerships must be overhauled, so that public confidence can be restored in the wake of high-profile failings. The case for change is even greater as public services face the challenges of reducing resource, rising demand and shifting citizen expectations. The nature of the shift required is one that moves away from transactional modes of operating to a truly changemaking approach – one which is collaborative, creative, adaptable, accountable and rooted in place.

Only then will partnerships with the private sector be truly capable of taking on the challenges facing public services in the twenty-first century.

APPENDIX: METHODOLOGY

The research used a mixed methodology. We conducted desk-based research; in-depth interviews; a survey of council chief executives, leaders, and mayors; and held two advisory group meetings.

The research focuses on the challenges and opportunities in the delivery of public services through partnerships between the public and private sectors. In doing so, we take a broad definition of partnerships between the public and private sector, drawing on the World Bank definition:

“A long-term contract between a private party and a government agency, for providing a public service asset or service, in which the private party bears significant risk and management responsibility.”

DESK-BASED RESEARCH

During the desk-based phase of the project we reviewed academic papers, committee reports and policy documents. This literature review was not systematic but provided a detailed picture of the current context of public service delivery through partnerships between the public and private sectors. The themes that emerged through this literature review were used to shape further research. Additionally, we undertook secondary analysis of relevant publicly available data on public sector spend.

INTERVIEWS

We conducted 17 in-depth interviews from May to August 2017, including participants from the public, private and third sector and at varying levels of seniority. The semi-structured interviews were based on the themes identified within the literature reviewed as part of the desk-based research, though with sufficient flexibility to explore themes as they emerged.

ADVISORY GROUP MEETINGS

We conducted two advisory group meetings during the life-course of the project. Participants included representatives from local government; the private sector and academia.

NLGN LEADERSHIP INDEX (AUGUST 2018)

NLGN Leadership Index is a survey of leaders, chief executives, and council mayors of local authorities across the UK. It asks their level of confidence in key service areas and wider indicators of community wellbeing.

The NLGN Leadership Index survey (August 2018) was sent to 767 leaders, chief executives and council mayors across the UK. It was open between 7 June and 2 July 2018. This latest survey received a total of 191 complete responses, which translates to a 25 per cent response rate. Survey responses were received from all UK regions apart from Northern Ireland. Results are weighted by region based on the regional breakdown of respondents.

The results in Figure 1 reflect responses to the following question:

Overall, compared to the level of outsourcing your council has overseen during the last five years, do you think that you will outsource more or less over the next two years?

Multiple choice options:

- a. Much more
- b. More
- c. Neither more nor less (the same)
- d. Less
- e. Much less

The full report from NLGN Leadership Index August 2018 is available here:

http://www.nlgn.org.uk/public/wp-content/uploads/Leadership-Index_AUGUST-2018.pdf

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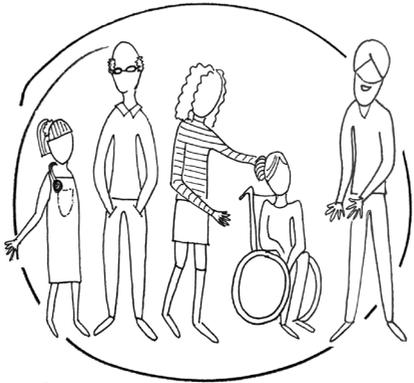
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The role of the private sector in the delivery of public services has been under intense scrutiny of late. However, the manner in which this debate is framed as ‘outsourcing versus in-house’ is out of kilter with the practical realities of new and evolving forms of partnerships. It also distracts from the principal challenges of public service delivery – the provision of high quality services in a context of increased complexity and rising demand.

This report sets out how partnerships must be overhauled to be fit for purpose for future challenges: to shift from being dominated by transactional characteristics to become truly changemaking. This requires a radical change in the culture and relationships at the heart of partnerships to deliver high quality public services. The engagement of the public within partnerships is key to this transformation, and to restoring confidence in their ability to create value.

The report sets out five principles as a framework for change, as well as recommendations for government, the public sector and the private sector to bring this vision into effect.

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